

USAID/Kenya

Annual Report

FY 2004

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Please Note:

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Related document information can be obtained from:
USAID Development Experience Clearinghouse
8403 Colesville Road, Suite 210
Silver Spring, MD 20910
Telephone: (301) 562-0641
Fax: (301) 588-7787
Email: docorder@dec.cdie.org
Internet: <http://www.dec.org>

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Kenya

Performance:

Kenya is experiencing a unique historical moment. On December 27, 2002, the Kenyan voters elected their first new president following 24 years of president Moi's regime.. The new Government has attempted to make a clear break from the past by its policy actions. Among these are adopting key legislation to address corruption and improve governance, the reintroduction of universal primary education and accelerating the constitutional reform process. The Government is also working with donors and its development partners to develop an economic recovery strategy aimed at translating its manifesto commitments into practical actions that will restore growth. To this end, the Government has completed agreements with the World Bank and the International Monetary Fund (IMF). The Government and donors are turning to USAID as an important partner which can contribute to Kenya's efforts in terms of capacity building and the transformation of Government towards a leaner entity that creates an enabling framework for private sector-led growth.

Kenya has the largest and most diversified economy and the most developed infrastructure in the region, despite a history of poor policy decisions and lack of investment. The financial sector and transportation system are the economic lifeline of much of east and central Africa. From 1990 to 2001, Kenya's real GDP grew by an annual average rate of 2.2 percent, well below the average GDP growth rate of neighbors such as Uganda (6.8 percent) and Tanzania (3.1 percent). Kenya's weak economic performance coupled with population growth rates averaging 2.7 in the last decade, led to a contraction in per capita income by an average of 0.5 percent per year. The World Bank estimates that given its current structure, the Kenyan economy could grow by 4.5 percent per year, and with the implementation of a serious reform process as included within the Economic Recovery Strategy the economy could be on a higher growth path, projected at 6% per annum. Kenya has become a leader in the race to benefit from the U.S African Growth and Opportunity Act (AGOA), and the garment industry in particular is enjoying rapid growth. Factors such as efficiently run export processing zones, good air and sea transport links to Asia and the United States, and a relatively skilled workforce have facilitated the success of the garment industry. These attributes are expected to become important in attracting new investments as the investment climate improves. The Government has cautiously moved towards implementing a number of initiatives to restructure public enterprises to become more efficient and more competitive. A privatization legislation will be presented to parliament soon. Kenya with proper reforms, could be in the first rank of African states to tap into the Millennium Challenge Account.

At the end of 2002, peaceful and democratic elections brought to power an opposition coalition. This successful democratic transition installed the administration of President Kibaki that enjoys wide popular support. The new government has not only addressed pending governance issues, especially in the areas of concern to the donor community, it has also indicated commitment to further reforms in other areas in the medium to long term. The creation of the Ministry of Justice and Constitutional Affairs provides a key focal point to co-ordinate judicial reforms. The President has articulated the importance of legal and judicial sector reforms at several forums, and recently launched a 5-year anti-corruption campaign that would be implemented by government, private sector and civil society. Two bills, The Anti Corruption and Economic Crimes Bill, 2003 and The Public Officer Ethics Bill, 2003, were passed with Presidential ascent. More recently senior officials and public servants including the President have declared their wealth and The Kenya Anti-corruption Commission has been established. Other transparency and accountability related legislation on privatization, procurement, financial management and audit and control will shortly go to parliament. The government has established a Department of Governance and Ethics in the Office of the President, primarily to advise the President on governance matters and among other more specific duties, oversee the implementation of the Public Officers Ethics Bill providing guidance to public servants on possible conflict of interest and ethical matters in the

execution of their duties. Encouraging progress was also made on reviews of road contracts, the ongoing enquiry into the infamous Goldenberg affair, and the recommencement of the constitutional review process. Twenty three judges and 76 magistrates implicated in corruption were suspended as the long awaited reforms in the judiciary got underway.

Although the 1990s were largely a decade of decline and lost opportunities with increasing poverty and declining social indicators, Kenya still remains the dominant economy in the East Africa region. It has maintained macroeconomic stability and is key player in East and Southern Africa. It has a thriving civil society and private sector and a free press

U.S. Interests and Goals: The U.S. Mission in Nairobi protects and promotes significant U.S. interests in East Africa. Since independence Kenya has had one of the most stable and positive relationships with the United States on the continent. With the installation of a new government we can build on this solid foundation and expand Kenya's role as an economic engine for the region. Similarly, a long tradition of U.S.-Kenyan cooperation in military and security matters has acquired new depth through active partnership in counter-terrorism and regional conflict resolution.

This year, the Mission's priority will be to build on the successful democratic transition. We shall assist Kenya build stronger and more independent democratic institutions, including successful constitutional reform, increased accountability and respect for the rule of law. This first goal will in turn support progress toward improved governance and economic prosperity. Accordingly, our strategy expands efforts to strengthen the Kenyan parliament and support ongoing reforms in the judiciary. Our second goal will be to expand the Mission's efforts in public health and stemming the HIV/AIDS pandemic. Our third goal focuses on economic reform and restoring broad-based economic growth. We will focus on facilitating anti-corruption efforts and reducing the government's role in the economy. The new government's principal challenge will be the revival of a long-stagnant economy. Given the pivotal role of agriculture in Kenya's economy, improving the performance of selected agricultural sectors, at the farm, market and policy levels, is another priority. We will also support efforts to restore momentum to long-stalled privatization efforts.

Counter-terrorism is an equally high priority in this sensitive region. We will work to strengthen the GOK's ability and political will to combat serious regional terrorist threats, while enhancing the security of U.S. citizens abroad and at home. Our counter-terrorism goal will improve the ability of Kenyan security forces to control borders and participate in peacekeeping. This effort will involve both providing better technical means to counter terrorism and an improved legal framework for our cooperation.

Donor Relations: Donor coordination is generally good and various donors take the lead in coordinating sectoral areas. At the broadest level, the United States is a founding member of the Donor Coordination Group which focuses on pressing the government of Kenya to improve economic governance, including improved performance of the public sector, rationalizing the role of government, improving the operating environment for private sector-led growth, and reducing corruption. USAID is also a member of another donor group, the Like-Minded Donors that focuses on implementation and joint funding of programs to strengthen democracy and good governance. The group has formed subcommittees of donors interested in strengthening Parliament and the judiciary.

The United States is the largest bilateral donor followed by the United Kingdom (UK), Japan, Sweden, Federal Republic of Germany, and France. The United States is the leading donor in the democracy and governance sector. Other donors are UK, European Union, Netherlands, Denmark, Sweden, Germany, and Canada. USAID, the EU and the World Bank have been instrumental in pushing for an enabling policy environment for agriculture. The World Bank works closely with USAID to provide support to Kenya's agricultural research institutes while the EU, World Bank, African Development Bank and USAID support livestock development. The leading donors in the micro- and small enterprise sector are the USAID, the UK, the EU, the Netherlands, Denmark, and the United Nations Development Program (UNDP). In the natural resources management (NRM) sector, the major donors are the USAID, the Netherlands, the UK, Japan, Sweden, Belgium, Finland, Germany, Denmark, the EU, the World Bank, and the United Nations Environment Program (UNEP). USAID is the leading bilateral donor to Kenya's

population and health sector. USAID and the British Department for International Development (DFID) both support PSI's work in HIV/AIDS, family planning, and malaria; DFID contributes \$37.6 million over 5 years, USAID \$13.7 over 3 years. This is a strong existing program that is showing good results due to USAID-DFID collaboration and to an excellent implementing partner. USAID is also a member of the Education technical working group which is led by DFID and the World Bank with active participation of Japan and the UN Agencies.

Challenges: Kenya is by any measure a key regional state facing an immediate and daunting array of challenges. Restoring economic growth and poverty is still a tremendous challenge and will require reallocation of public spending towards pro-poor programs and eliminating obstacles to the full participation of women and other groups in the economy. The burden of disease, particularly malaria and HIV/AIDS will constrain growth in the years to come.

Although several important steps have been taken in the right direction, many challenges remain, including: the raised expectations of Kenyans and the ability of the government to deliver on its election promises; and critical structural reforms in the financial sector, privatization and civil service reform. The ruling party, NARC, is a fragile coalition of disparate parties, which do not seem to agree on a national agenda. Parliament, where all these parties are represented, is one arena where these differences are being played out. Unless these elites agree on the most contentious issues including how to share power in a new constitution, there will be a continuing delay in passing critical pieces of legislation and implementing reforms.

Much remains to be done to strengthen democratic institutions and the rule of law in Kenya, but a solid foundation now exists to tackle these perennial weaknesses. Mission support for economic reform and better governance were hampered by Kenya's overwhelming focus on the political process last year. However, Mission policy goals clearly laid out a road map of reform for the new Kenyan administration and have served as the basis for a series of initial moves to improve public administration and complete constitutional reform. The new government promises to move toward market-based policies to create a favorable climate for the private sector and investment.

Key Achievements: This AR describes the efforts of the Mission and our cooperating partners to achieve excellent development results during this reporting year. The USAID/Kenya program made significant progress in FY 2003, and once again has turned in excellent development successes. We believe the results presented in this year's Annual Report confirm that USAID is making a difference in Kenya, and if the resources we have requested are provided, USAID will assist Kenya to move toward broad-based, economic growth and improve the quality of life of the poor.

HIV/AIDS, Population, and Health: The USAID HIV/AIDS, population, and health program is comprised of three components, namely, HIV/AIDS prevention, care, and support; health sector reform and health care financing; and family planning and child survival. Our program seeks to continue its achievements in these areas and to provide lessons to the rest of Africa on how to successfully address these problems. Provisional results from the Kenya 2003 DHS indicate that sexual activity by unmarried women and men has decreased in the past 5 years. Sales of socially marketed Trust condoms, targeting those who are already sexually active, increased by 12% over FY02 to almost 20 million, meeting the FY03 target. After the Thanksgiving Day 2002 terrorist bombing of a hotel in Mombasa, many lives were saved due to the new blood transfusion center there, part of the USAID-supported national safe blood project. USAID has provided more than 20,000 girls and young women with HIV/AIDS peer education and life skills training. We also trained people living with HIV/AIDS in public speaking and who have become eloquent advocates of self-risk perception, behavior change, and stigma reduction, speaking in schools, churches, and workplaces and on call-in radio programs.

Natural Resources Management (NRM). USAID's NRM efforts intend to reverse, halt or lessen the unsustainable use of natural resources outside protected forests and wildlife and marine areas through a community-based approach that effects positive behavioral change toward the management of these resources. In FY 2003, communities and landowners in the USAID target areas brought 65,600 hectares of land under improved use. In addition, more coastal area was put under improved management through

the implementation of the integrated coastal management (ICM) strategy. The number of individuals who benefited from improved natural resources management (NRM) was 6,500 demonstrating steady growth in the size of the Kenyan constituency for conservation. The capacity of community based organization (CBO's) to transform labor, land and technology into improving people's lives through improved land use practices grew substantially. The median organization capacity score for CBOs that received organization development (OD) support increased from 2.4 to 3.0 indicating steady improvement in CBOs' ability to manage nature-based enterprises and conduct advocacy. The transfer of business skills to establish and solidify nature-focused businesses progressed well with 155 jobs created and total wages of \$156,000 earned at community level.

Democracy and Governance (DG): Our efforts in democracy and governance seek to increase the independence of select government institutions; promote more transparent and competitive electoral processes; and to increase civil society organizations' effectiveness in lobbying for reforms, monitoring government activities, and preventing and resolving conflicts. Mission targets in the area of more competitive and transparent elections were exceeded, a significant result was achieved, and the fundamentals are in place to realize the overall objective in 2008. Indeed, Kenyans held government accountable by removing an unresponsive regime while providing a clear mandate to a new government. Parliament passed two key legislations that go a long way to promote good governance and accountability and improve the balance of power between the Executive and Legislature by providing Parliament the power to vet presidential appointments to an Anti-Corruption Advisory Board.

Agriculture and Microenterprise Development: Our economic growth program aims to increase rural household incomes in Kenya from both agriculture and microenterprise activities since 80 percent of Kenya's population live in the rural areas and 75 percent are involved in agriculture. Due to USAID support, 22 maize varieties were released by seven seed companies as of August 2003 compared to only thirteen varieties by four seed companies in 2002. A total of 439 farmers directly participated in the contractual multiplication of certified seed producing 87 metric tons of seed, worth \$39,592. Over 33,000 farmers were exposed to improved and affordable seeds and fertilizers, with the farmers estimating 40% yield increases. The Association of Microfinance Institutions (AMFI), with USAID support, has presented the microfinance bill to the Attorney General for legal redrafting; this bill will significantly improve the policy and regulatory framework for microfinance institutions when finally passed in Parliament. Under the PL 480 program significant progress was made toward improved sustainable food security for communities in Kenya's arid and semi-arid lands (ASALs), the areas most vulnerable to climatic shocks. Over the past two years, the estimated average income improved by between 1.4% and 51% for households assisted by five of the six participating US PVOs.

Gender: USAID/Kenya uses gender mainstreaming as an approach to achieve gender equality and is therefore recognized and advocated as a cross-cutting theme, reflected in planning, implementation, monitoring and evaluation of all program funded projects. Our projects in democracy and governance, health and HIV/AIDS, agriculture and microenterprise, and natural resources are designed to take into account the gender implications of the project. USAID has provided scholarships to about 180 girls from poor households who have now completed Form IV level. USAID-supported microfinance institutions (MFIs) are achieving large-scale women outreach and high impact. The average participation of women in USAID credit program ranges between 45 percent and 50 percent. In the natural resource management sector, USAID is mainstreaming gender through small business like bead making, arts and crafts. We have assisted Wasini Women Group to construct a one-kilometer boardwalk through the coral gardens at the Kenyan Coast for attracting tourists. Last year, the group generated over \$6,500 in entry fee. The group has used this money to maintain the boardwalk, build a curio shop at the entrance (to diversify and increase income), and to pay cash dividends to members. As a result of these income-generating activities, women now have their own money and, to a certain extent, are more involved in making household-related decisions. Wasini women group is a small but useful model on how engendering women issues into conservation can result into meaningful community development.

Country Close and Graduation:

Results Framework

615-001 Effective Demand for Sustainable Political, Constitutional and Legal Reform Created

615-002 Increased Commercialization of Smallholder Agriculture and Natural Resources Management

615-003 Reduce Fertility and the Risk of HIV/AIDS Transmission Through Sustainable, Integrated Family Planning and Health Services

615-004 Meet critical needs of Kenyans affected by the Nairobi bomb blast and build capacity to address future disasters

615-005 Improved Natural Resources Management in Targeted Biodiverse Areas by and for the Stakeholders

615-006 Sustainable Reforms and Accountable Governance Strengthened to Improve the Balance of Power Among the Institutions of Governance

615-007 Increased Rural Household Incomes

615-XXX Education Support for Children of Marginalized Populations

615-YYY Trade and Investment Development Program